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Malaysia

Grain and Feed

Annual

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Report Highlights:

Malaysian grain imports suffered declines in 1999/2000. A reduction in the pig population resulted in a drop in corn consumption while wheat users worked down on stocks. Increase in local rice production had negative impact on rice imports. Post expects corn and wheat imports to rebound to meet growing demand in 2000/01. However, faced with severe competition, the prospect for U.S. sales is not bright.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Kuala Lumpur [MY1], MY

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Executive Summary

Malaysian grain imports declined 1999/2000. The outbreak of the Nipah virus which led to the destruction of more than one million pigs in Malaysia during the first half of 1999 took a toll on corn consumption while wheat users worked down their stock levels to meet local demand. Domestic rice production took an upturn and resulted in a significant decline in rice imports.

The Malaysian economy is recovering fast from the economic turmoil and we expect consumption of grains to exceed pre-crisis levels in 2000/01. Relatively high pig prices provide the added incentive to increase pig output while the poultry sector is poised for further expansion. The noodle and biscuit sectors continue their expansion plans to cater for overseas demand. All these will translate into sharp increases in corn and wheat imports for the near term. Domestic rice production is expected to further improve in CY2001 and should dampen rice imports.

The prospect for U.S. grain sales to Malaysia is not bright. U.S. faces severe competition from China and Argentina in corn and from Australia and Canada in wheat. In addition, the current low domestic interest rate (Klibor 9 mth @ 3.57%) has reduced the attractiveness of the GSM program. Post only expects U.S. to export 300 TMT of corn and 40 TMT of wheat to Malaysia in 2000/01. Historically, U.S. has been an insignificant player in the rice market.

		Production	Imports	Exports	Domestic. Disappearance
			(In 1,000 MT)		
Corn	1999/00	57	2352	0	2400
	2000/01	65	2430	0	2480
	2001/02	67	2560	0	2610
Wheat	1999/00	0	1174	122	1065
	2000/01	0	1275	130	1130
	2001/02	0	1350	140	1199
Rice	1999	1290	611	0	1940
	2000	1426	600	6	1970
	2001	1440	570	0	2050

1/ Exchange Rates: 1999 US1.00 = Rm3.80

2000 US1.00 = Rm3.80

February 15 2001 US1.00 = Rm3.80

Corn

(in 1000 Hectares and 1000 MT)

PSD Table						
Country	Malaysia					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Area Harvested	27	27	27	28	0	28
Beginning Stocks	150	263	150	272	155	287
Production	57	57	55	65	0	67
TOTAL Mkt. Yr. Imports	2296	2352	2400	2430	0	2560
Oct-Sep Imports	2296	2352	2400	2430	0	2560
Oct-Sep Import U.S.	0	286	0	300	0	350
TOTAL SUPPLY	2503	2672	2605	2767	155	2914
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	2154	2240	2380	2310	0	2430
TOTAL Dom. Consumption	2353	2400	2450	2480	0	2610
Ending Stocks	150	272	155	287	0	304
TOTAL DISTRIBUTION	2503	2672	2605	2767	0	2914

Production

Domestic corn production in Malaysia is insignificant

Consumption

The outbreak of the Nipah virus which led to the destruction of more than one million pigs in Malaysia during the first half of 1999 caused a decline in corn consumption and imports in 1999/2000. In addition, the Indonesian poultry egg industry has returned to normalcy resulting in a 91 percent decline in Malaysian egg exports to Indonesia, further reducing grain consumption.

For the current outlook, consumers' confidence has returned since mid-2000 and the fear of consuming pork has altogether disappeared. In fact, the pig farmers are currently unable to meet all the domestic demand for pork. Monthly ex-farm price for live pigs rose from RM4,100/ton in Jan, 2000 to RM4,440/ton in Jan, 2001. The key constraint to a faster recovery of the pig industry is that the GOM will only grant or renew licenses provided a satisfactory waste management system is in place. As for the poultry sector, Post expects further expansion in the broiler meat and egg production in the current marketing year. At this point, we expect domestic corn consumption to increase 3 percent in 2000/01 and 7 percent in 2001/02.

Trade

Malaysia's imports dropped 4% in 1999/2000. China again dominated the Malaysian corn market by capturing even a bigger market share of over 80 percent. Partly due to the utilization of GSM credit facilities, U.S. sales of corn amounted to 286 TMT, about 12% market share in 1999/2000 compared to 15% in 1998/99. Imports from other countries, including Argentina, Indonesia and Burma were much lower.

In line with the increase in feed consumption, we estimate Malaysia's imports to rise 3% to 2.4 million tons of corn for the current (2000/01) marketing year. Despite a smaller harvest, China continues to be U.S.'s biggest competitor in the Malaysian corn market. China has been selling more corn to Malaysia in smaller vessels which work well in the current economic situation. In addition, Argentina is having a bigger crop this season. The current low domestic interest rate (Klibor 9 mth @ 3.57%) has also reduced the attractiveness of the GSM program. U.S. corn sales are not bright and will probably expand rather slowly 300 TMT in 2000/01 and a bit more during the following year.

Corn Imports

Import Trade Matrix			
Country	Malaysia		
Commodity	Corn		
Time period	Oct99/Sep00 for 1999, Oct 00/Sep01 - Not Available	Units:	1000 MT
Imports for:	1999		2000
U.S.	286	U.S.	
Others		Others	
China	1957		
Argentina	57		
Singapore	16		
Indonesia	13		
Burma	9		
U.A.E.	8		
Thailand	5		
Australia	1		
Total for Others	2066		0
Others not Listed			
Grand Total	2352		0

Stocks

While the Malaysian economy is on better footing, corn traders are still cautious on cash-flow problems and prefer to keep stocks to a minimum in order to reduce exposure to risk. With more supplies coming from China, stock level should not be more than one and a half months.

Policy

Production Policy

The GOM has no definite plans to develop a viable domestic field corn industry. Domestic corn production is unlikely to expand significantly in the foreseeable future.

Marketing

Market Development Opportunities

The most urgent need to increase corn consumption in Malaysia is to rebuild the pig industry which has been ravaged by the outbreak of the Nipah virus (Japanese Encephalitis) in 1999. From attending a recent seminar on 'Intensive Livestock Production and Environment in the Humid Tropics' and a field trip to visit some farms in Penang, Ag Specialist gathered that the farmers, together with the livestock authorities, are making serious efforts to revive the sector. The key constraint to a faster recovery of the pig industry is that the GOM will only grant or renew licenses provided a satisfactory waste management system is in place. Being a Islamic country, the Authority has to ensure that its waterways are clean and non-offensive to the Muslim populace. Participants suggested FCS and FAS look into the opportunity and the possibility of bringing a team of U.S. companies together with the U.S. Livestock Genetics to introduce machinery/equipments as well as U.S. swine breeds.

During March/April 2000, FAS (using EMO funding) and USAEP sponsored 34 key Malaysian officers and farmers to attend the Livestock Waste Management Training Course at the Environmental Center for Livestock Waste Management (ECLWM) in Taiwan. As a result of this exposure, the two main speakers, Dr. Ronald Miner from the Oregon University and Dr. Liang Chou Hsia from the Pingtung University of Science and Technology have been invited to Malaysia as conference speakers and consultants to selected framers' associations. In addition, the State of Penang Municipal Council sent 39 officers/farmers on their own expense, for a study tour to Taiwan with a visit to the ECLWM as part of the program.

The U.S. National Swine Registry is sending a delegation to explore the Malaysian swine sector in March, 2001. Their program includes meeting with governmental officers, local swine industry leaders and producers and conducting swine technical seminars for few selected swine farmers' association. Post is assisting them in setting some appointments. Post is confident that the revival of the Malaysian pig farming sector will have a positive impact on the imports of U.S. feedgrains in the near term and support activities which contribute to the revival.

Promoting combination shipments, as well as the use of GSM-102 financing, are all crucial in order for the U.S. to recapture market share. Agatt office has devoted much time in 1999 to promote GSM -102 export credit programs, persuading potential users to attend GSM presentations organized by Post at key cities in the country. Unfortunately, the current low domestic interest rate (Klibor 9 mth @ 3.57%) has reduced the attractiveness of the GSM program. As a result, sale of US corn under GSM program have declined significantly from US\$16 million in 1998/99 to US\$7.8 million in 1999/2000.

GMO/Biotech Safety Issue: At the present moment, the Malaysian Government has no negative reaction to GMO. However on the consumer level, there has been a strong call to have 'labeling' for GM foods. Regarding the *Starlink Saga*, the Malaysian Ministry of Health (MOH) and the Third World Network, an anti-biotech NGO, voiced some concern and requested lengthy information from Post. With assistance from ITP, Post was able to meet their requests and MOH did not implement any restrictive actions.

On May 20, 2000, Malaysia signed Cartagena Protocol at the Fifth Meeting of the Conference of Parties to the the Convention on Biological Diversity in Nairobi, Kenya. The draft of national legislation was completed by the Malaysian Genetic Modification Advisory Committee (GMAC). The proposed legislation involves three acts, namely, Biosafety Act, Access to Biological Resources Act and National Biodiversity Council Act. The

controlling Ministry is still in the process from getting feed-back from the various state authorities before submitting the final draft for the Parliament's approval. Acceptance of GM products could be a limiting constraint that needs to be addressed properly.

One challenge for the US Grain Council is to increase corn consumption in the food, beverage, brewery and industrial sector. The snack and breakfast cereal food industry has been growing fairly rapidly. This growth should continue in the near term. There is also some likelihood of expansion in the production of modified starches. Thus, technical seminars to transfer technology in corn processing and corn food manufacturing would help to accelerate demand in these areas.

Wheat

(in 1000 Hectares and 1000 MT)

PSD Table						
Country	Malaysia					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		07/1999		07/2000		07/2001
Area Harvested	0	0	0	0	0	0
Beginning Stocks	150	167	150	154	150	169
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	1275	1174	1275	1275	0	1350
Jul-Jun Imports	1275	1174	1275	1275	0	0
Jul-Jun Import U.S.	0	38	0	40	0	40
TOTAL SUPPLY	1425	1341	1425	1429	150	1519
TOTAL Mkt. Yr. Exports	200	122	200	130	0	140
Jul-Jun Exports	200	100	200	130	0	140
Feed Dom. Consumption	50	0	50	0	0	0
TOTAL Dom. Consumption	1075	1065	1075	1130	0	1199
Ending Stocks	150	154	150	169	0	180
TOTAL DISTRIBUTION	1425	1341	1425	1429	0	1519

Production

Wheat is not produced in Malaysia.

Consumption

Although domestic utilization of wheat by millers recorded a dip in 1999/2000, production of wheat-based products showed some growth, probably from working down on wheat flour stocks. The biscuit sector performed very well with output showing a 7 percent increase in CY 2000. Exports of biscuits rose 24 percent in 2000. While domestic consumption of noodles showed a small increase, exports of noodles recorded a 50 percent increase. The main markets for Malaysian noodles include the EU, Australia and the ASEAN nations.

With the strong rebound in the Malaysian economy, wheat consumption has already exceeded the pre-financial crash level in 1997. Domestic consumers seem to have returned to the good old days' mood of dining and feasting in restaurants and new-style coffee parlors. Al-fresco dining, Italian cuisine and wine are becoming trendy among the urbanites. All these new developments augur well for wheat consumption. In addition, Malaysian wheat biscuit and instant noodle exporters emerge as 'go-getters' in securing overseas market, not only in neighboring countries but also in European nations for their products. Exports of such products have

been recording double digits for the past few years.. We expect a 6-7 % growth in wheat consumption in 2000/01 and 2001/02.

Domestic wheat prices are controlled by the Malaysian Government under the Supplies Regulation Act (1974). The retail flour price remained at RM1.20 (US\$0.32) per kilo since 1997.

Trade

The outlook for total wheat imports is bright and we expect total imports to rebound to 1.3 MMT. Since the Malaysian wheat market is dominated by the noodle and biscuit industries, Australia will remain the major player in the soft wheat market. U.S. competes with Canada in the Malaysian hard wheat market which is essentially the bread sector. With Canada having a huge exportable surplus, U.S. has a formidable rival in the current year. In addition, the current low domestic interest rate (Klibor 9 mth @ 3.57%) has reduced the attractiveness of the GSM program. At this point, we estimate U.S. wheat exports to Malaysia to fall to 20 TMT in 2000/01.

Exports of wheat flour rose 15% percent in 1999/2000 with increased demand from Indonesia.

Wheat Imports

Import Trade Matrix			
Country	Malaysia		
Commodity	Wheat		
Time period	Jul99/Jun00 for 1999, Jul/Sep00 for 2000	Units:	1000 MT
Imports for:	1999		2000
U.S.	38	U.S.	20
Others		Others	
Australia	780	Australia	146
Canada	300	Canada	66
Argentina	46		
Poland	10		
Total for Others	1136		212
Others not Listed			
Grand Total	1174		232

Wheat Exports

Export Trade Matrix			
Country	Malaysia		
Commodity	Wheat		
Time period	Jul99/Jun00 for 1999, Jul/Sep00 for 2000	Units:	1000MT
Exports for:	1999		2000
U.S.		U.S.	
Others		Others	
Singapore	45	Singapore	11
Indonesia	33	Thailand	10
Thailand	32	Indonesia	5
Burma	6	Brunei	1
Brunei	3	Burma	1
Vietnam	1		
Total for Others	120		28
Others not Listed	2		
Grand Total	122		28

Marketing

Market Development Opportunities

The short supply of Hard White Winter (HWW) for making noodles restricts its usage as a substitute for soft wheat from Australia. According to one miller, US Wheat Associates is doing a great job in pushing HWW but the commercial people in U.S. are not giving the backing. While the Malaysian noodle market is relatively small, U.S. should emulate the Australians who see Malaysia as part of the entire Asian noodle market which includes Japan, Taiwan and other ASEAN countries. The Australian Wheat Board has put in much efforts to put onto the market a wheat that is suitable for making noodles. They even hired Asian scientists and researchers for this purpose. Being a white wheat, HWW can compete with Australian Soft Wheat (ASW) and overcome the color and enzyme problems caused by red wheat in noodle production. Flour millers continue to voice the need to obtain a reasonable amount of HWW in order to perform trials/tests both in the mills and noodle markets.

US wheat has not been price competitive and lost virtually all its market share - not only to Canada but also to new comers such as Ukraine and Poland in recent years. In addition, wheat boards in Australia and Canada offer price discounts which render US as a residual supplier. For the immediate term, importers should be encouraged to purchase split-cargo with U.S. soybean/corn in order to reduce cost of importation. While the GSM program was useful in 1998/99, the current low domestic interest rate (Klibor 9 mth @ 3.57%) has reduced its attractiveness.

Except for one complaint of a shipment of US wheat infested with live insects in 1999, quality problems concerning US wheat is essentially a non-issue in recent years. However, Malaysian importers still perceive US traders going out of their ways to match the minimum standard requirement while its competitors normally would give a bonus above the specs.

Competitor Activities

The Australian and Canadian Wheat Boards are known to provide exceptional service in all aspects of trade. Having control over both pricing and marketing activities, the boards can offer attractive discounts as well as respond quickly to Malaysian complaints about grain quality or other issues related to sales. The AWB even has its own ships to provide low cost and efficient transportation for its products. Both Boards make regular trade servicing trips to the various mills in the country. The Australian Board is undergoing privatization and that may have some impact on the US wheat trade.

The Canadian Board is ready to commercialize its 'white' CWRS and this might pose a threat to US DNS and Australian Prime Hard. The only disadvantage in securing wheat from Canada is that wheat originating from cold weather conditions tends to sprout faster in the tropics.

Rice

(in 1000 Hectares and 1000 MT)

PSD Table						
Country	Malaysia					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Harvested	660	660	665	665	0	670
Beginning Stocks	478	486	536	447	546	497
Milled Production	1365	1290	1400	1426	0	1440
Rough Production	2100	2038	2155	2195	0	2215
MILLING RATE (.9999)	6499	6499	6499	6500	0	6500
TOTAL Imports	633	611	600	600	0	570
Jan-Dec Imports	600	658	550	611	0	620
Jan-Dec Import U.S.	0	1	0	0	0	0
TOTAL SUPPLY	2476	2387	2536	2473	546	2507
TOTAL Exports	0	0	0	6	0	0
Jan-Dec Exports	0	0	0	0	0	6
TOTAL Dom. Consumption	1940	1940	1990	1970	0	2050
Ending Stocks	536	447	546	497	0	457
TOTAL DISTRIBUTION	2476	2387	2536	2473	0	2507

Production

2000 was a banner year for Malaysian in rice production. Preliminary estimates indicate a 10.5 percent increase over 1999's. Increased planted area as well as improved weather conditions in key rice growing areas contributed to an increase in yields. There has been no adverse reports of pest and disease during 2000 apart from some localized floods. The only problem created from the good harvest is the build-up in stocks.

The outlook for 2001 is equally bright. Barring any unforeseen, adverse circumstances, Post expects harvested area to expand to 670,000 hectares and rice output to increase to 1.44 MMT in 2001. If the target is achieved, Malaysia is near to 70% self-sufficiency.

Consumption

Post estimates domestic consumption to increase by about 1.5 percent in 2000 and 4 percent in 2001. The small increase in consumption is partly due to unofficial rice imports from neighboring Thailand. Rice retail prices remain unchanged since 1993. The ceiling price structure is as follows (in RM per kg):

Zone	Standard Grade	Premium	Super
A) Kedah, Kelantan, Perlis, Seberang, Krian K. Selangor & S. Bernam	0.98	0.01	1.65
B) Trengganu, Penang & Perak	0.99	1.06	1.70
C) Federal Territory & Selangor	1.01	1.07	1.75
D) N. Sembilan & Malacca	1.03	1.09	1.75
E) Johor, Gua Musang & Pahang	1.04	1.11	1.80

The support prices for padi rice also remained at RM55.00 per 100 kg for long grain and RM51.69 per 100 kg for medium grain since December 1997. In addition, all rice farmers receive a subsidy of RM25 per 100 kg of padi delivered to a licensed mill or drying facility.

Trade

With an increase in domestic rice output, Malaysia's rice imports slipped 2 percent in 2000. From available statistical data, Thailand dominated 43 percent of the rice import market, followed by China (25%), Vietnam (21%) and Pakistan (8%). No sales from U.S. were recorded.

As for 2001, Malaysia is likely to decrease rice imports in view of further improvement in domestic rice production as well as working down stocks.

Rice Imports:

Import Trade Matrix			
Country	Malaysia		
Commodity	Rice, Milled		
Time period	Jan-Dec for CY99 and Jan-Sep for CY00	Units:	1000 MT
Imports for:	1999		2000
U.S.	1	U.S.	
Others		Others	
Thailand	283	Thailand	181
China	156	China	106
Vietnam	123	Vietnam	86
Pakistan	48	Pakistan	32
		India	8
		Australia	3
		Burma	1
Total for Others	610		417
Others not Listed			
Grand Total	611		417

Rice Exports:

Export Trade Matrix			
Country	Malaysia		
Commodity	Rice, Milled		
Time period	Jan-Dec for CY99 and Jan-Sep for CY00	Units:	1000MT
Exports for:	1999		2000
U.S.		U.S.	
Others		Others	
		Brunei	6
Total for Others	0		6
Others not Listed			
Grand Total	0		6

Stocks

In normal years, Malaysia needs to keep only two to two and a half months of stocks. However, smuggling of rice from Thailand resulted in the build-up in stocks at the end of 2000. GOM imposed a temporary ban on rice imports in December, 2000 as part of measures to clear some of the rice stockpile. Post expects a work-down on stocks in 2000.

Policy

Production Policy

While the GOM targets 70% self-sufficiency, the local cost of production is much higher than neighboring countries and GOM's subsidies may more than offset savings from reduced imports. The recent smuggling of Thai rice proved that imported rice is cheaper and of better quality. The cost of production of local paddy at US\$171/MT is higher than Thailand's US\$144/MT, Vietnam's US\$118/MT and Indonesia's US\$92/MT. This predicament also rises fears that Malaysian rice sector may not stand up to the impact of competition arising from globalization and the implementation of AFTA in 2003. Reportedly, the Agriculture Ministry is drafting a strategic master plan to deal with the problem. One important strategy is to change the farmers' mind-set to adapt to the challenges of direct foreign competition caused by trade liberalization.

Marketing

Rice imports from the United States are mainly Calrose rice consumed by Japanese and Korean expatriates. Contributing factors to the U.S. absence from the market include lower prices, the desire to enhancing regional relationships, cheaper freight, and shorter shipping times for competitors' rice. While the opportunities for sales of U.S. rice in Malaysia are still very limited, the absence of a price ceiling on imported high grade rice and the incorporation of LPN, the Malaysian Rice Authority, may help to create a small niche market for imports of branded, packaged rice from the United States. Now may be the right time for the U.S. Rice Council to reestablish contacts with the Syarikat Padi Beras Nasional (BERNAS) to explore potential sales opportunities.